MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa1 to Idaho Bond Bank Authority Revenue Bonds 2015A

Global Credit Research - 05 Feb 2015

Aa1 and stable outlook affects $418 million of debt

IDAHO BOND BANK AUTHORITY
Cities (including Towns, Villages and Townships)
ID

Moody's Rating

ISSUE	RATING
Revenue Bonds, Series 2015A	Aa1

Sale Amount	$22,500,000
Expected Sale Date	02/17/15
Rating Description	Revenue: Other

Moody's Outlook

NEW YORK, February 05, 2015 --Moody's Investors Service has assigned a Aa1 rating to the Idaho Bond Bank Authority Revenue Bonds, Series 2015A. At this time, Moody's affirms the Aa1 rating on the Authority's outstanding bonds in the amount of approximately $395 million.

SUMMARY RATING RATIONALE

The Aa1 rating reflects the broad pledge of the State of Idaho's (Aa1 issuer/stable) sales tax revenues that provide ample coverage for debt service. The rating also considers the state intercept mechanism and other satisfactory payment mechanisms for debt service.

OUTLOOK

The stable rating outlook anticipates continued solid coverage of outstanding debt service by sales tax revenues, and continued improvement in state sales tax collections. Subsequent reviews will focus on the frequency of future borrowing and the level of coverage provided by state sales tax revenues.

WHAT COULD MAKE THE RATING GO UP

- Significantly reduced borrowing amounts and borrower concentration

- Sustainable strengthening of coverage levels by state sales tax revenues

WHAT COULD MAKE THE RATING GO DOWN

- Significant, additional leveraging of state sales tax revenues

- Increased concentration of largest borrowers

STRENGTHS

- Continued improvement in state sales tax revenues

- Multiple layers of security promote full and timely payment of debt service

CHALLENGES

- Moderate borrower concentration

- State's sales tax pledge also backs two school bond guaranty programs on a parity basis, resulting in further leveraging of a primary state revenue stream

RECENT DEVELOPMENTS

Since Moody's review of the Authority's rating in November 2014, forecast data for the state reflect continued improvement although FY 2015 revenues have been revised downward very slightly. After collections for 2014 came in slightly above prior estimates of about 5%, we believe pledged sales tax revenues will continue to provide very strong coverage of combined peak debt service for the Idaho Bond Bank Authority (IBBA) and Idaho School Bond Guaranty programs.

The current offering of $22.5 million will be loaned to one participant (City of Pocatello Wastewater Enterprise) to partially fund major upgrades to the system's Wastewater Pollution Control Facility. The participant has pledged net wastewater system revenues.

DETAILED RATING RATIONALE

NATURE OF PLEDGE; DEBT SERVICE COVERAGE AND REVENUE METRICS; GROWTH IN STATE SALES TAX REVENUES PROVIDES AMPLE COVERAGE OF PEAK DEBT SERVICE ON COMBINED STATE PROGRAMS

The state's sales tax revenues provide additional bondholder security with a pledge that is subordinate only to the state's tax anticipation notes (rated MIG 1) issued in annual amounts of as much as $500 million in recent years. However, the state's notes are secured by additional revenue streams that include individual and corporate income taxes as well as sales tax receipts for the fourth quarter of the fiscal year, along with the state's full faith and credit pledge. Also, the pledge of state sales tax revenues for bond bank obligations is on parity with the state's two School Bond Guaranty Programs that currently provide credit enhancement to an estimated $896 million of outstanding general obligation bonds issued by school districts (Idaho School Bond Guaranty Program and Idaho School Bond Sales Tax Guaranty Program are rated Aaa/STA and Aa1). Based upon fiscal 2014 data, gross state sales tax revenues provided an ample 37 times coverage of the bond bank's peak debt service, post-issuance, and a still sizable 10.6 times coverage of peak combined debt service for bond bank loans and school districts' guaranteed debt. Though continued improvement in sales tax revenues should improve coverage levels, additional issuances from the bond bank and school bond guarantees will likely dilute debt service coverage levels but are nonetheless expected to remain strong in the medium-term.

Concentration of the five largest borrowers is moderate at about 37.9% of total loans outstanding, post-issuance, and concentration is somewhat mitigated by two out of those five largest borrowers pledging unlimited ad valorem property taxes for repayment of their loans.

LEGAL COVENANTS

The program's intercept mechanism and the state's sales tax pledge have never been required to support the bond bank's debt service payments, and program provisions provide multiple layers of security to promote full and timely payment of debt service. Debt service payments for the Authority's bonds are due semiannually in March and September, and borrowers are required to pay the bond bank's trustee 15 days prior to the debt service due date. If a borrower's debt service payment has not been received within 10 days of the payment date, the trustee is required to notify the state treasurer to implement intercept procedures, if applicable. If funds are still insufficient for debt service within five days of the payment date, the state treasurer will transfer monies representing state sales tax collections from the state's general fund account sufficient to make-up any remaining shortfall for debt service.

Each participant in the program is required to execute a loan agreement with the bond bank to provide funds and to make payments on their respective loans. There are no cross-default provisions across the loan agreements, so each participant will not be liable for the failure of any other municipality to make their respective loan payments. To enhance the bond bank's governance, the Authority's board continues to enforce improved disclosure requirements for underlying borrowers.

The state requires bond bank participants to meet certain standards that strengthen the security of their respective pledges. Ad valorem property tax pledges require local voter approval. Certificate of participation require judicial confirmation or voter approval prior to issuance, and must have a first lien security on pledged revenues.

Enterprise revenue pledges are required to have a first lien pledge of net revenues, along with rate covenants and additional bonds tests of 1.25 times net revenues. Borrowers from the bond bank appear to be of moderate and satisfactory credit quality, though the majority of loans are attributable to entities not rated by Moody's.

The Idaho Bond Bank Authority Board places a limit on the amount of debt secured by the bond bank and both School Bond Guaranty Programs. The limit caps bond bank issuance at the point maximum annual debt service of the programs reaches 20% of the most recently audited state sales tax collections. Similarly, the Idaho School Bond Guaranty program adopted a policy that essentially mirrors the Authority's debt capacity policy. Finally, Authority policy restricts participant loans to 20% of outstanding total debt (similar to a 5 times additional bonds test). We view these limitations as a prudent step in governing the pace and amounts of future bond bank issuances, although approaching this cap over the long-term would result in significant leveraging of the state's primary revenue source. However, a significant mitigant is that a large portion of the underlying borrowers have secured their Authority loans with an unlimited property tax pledge.

PENSIONS and OPEB

Pensions and OPEB are not a major factor in the methodology

MANAGEMENT AND GOVERNANCE: BOND BANK AUTHORIZED BY STATE'S CONSTITUTION AND VOTERS

Under the program, each series of bonds is secured by pledges of the underlying borrowers. The security for each underlying borrower's loan agreement is typically either a general obligation ad valorem property tax, property tax assessments, certificates of participation, or net enterprise net revenues. The bond bank program includes a credit review process and minimum credit criteria for potential borrowers that involves confirming the legal authority of their pledge to incur debt, evaluating their ability to meet debt service coverage thresholds, and reviewing the operating impact of debt issuance on potential borrowers. Outstanding loans issued through the bond bank total approximately $417.9 million, post-issuance of the 2015A Bonds.

KEY STATISTICS

Number of outstanding Authority loans: 80

Total amount of loans outstanding, post-issuance: $417.9 million

Borrower concentration: 37.9% for five largest participants

Coverage of peak bond bank debt service by fiscal 2014 sales tax revenues: 37.1 times

Coverage of peak bond bank and school bond guaranty debt service by fiscal 2014 sales tax revenues: 10.6 times

OBLIGOR PROFILE

The Idaho Bond Bank program was established by a series of legislative actions and voter approval. The legislature approved an amendment to the constitution and voters approved creation of the Idaho Bond Bank and the pledge of state sales taxes in 2000. The program was authorized in 2001 by the Idaho Bond Bank Authority Act that to provide an attractive mechanism for financing the infrastructure needs of local governments.

LEGAL SECURITY

The current offering is secured by the participant's pledge of net wastewater system revenues. Additional security is provided by the state's intercept mechanism whereby intergovernmental revenues due to participants will be transferred directly to the trustee to pay debt service, if payments have not been received sufficiently in advance of debt service payment dates.

Importantly, the bonds are further secured by a pledge of the state's sales tax revenues that will be transferred directly to the trustee for debt service, if full and timely payments for debt service from borrowers have not been received within five days of the payment date.

USE OF PROCEEDS

Proceeds from the current offering will be loaned to one participant to fund certain wastewater system projects.

PRINCIPAL METHODOLOGY

The methodologies used in this rating were US Public Finance Special Tax Methodology published in January 2014 and State Aid Intercept Programs and Financings: Pre and Post Default published in July 2013. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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